

The Ohio State University Foundation

(A Component Unit of The Ohio State University)

Consolidated Financial Statements

As of and for the Years ended June 30, 2017 and 2016

and Report of Independent Auditors on Internal

Control over Financial Reporting and on Compliance

and Other Matters Based on an Audit Performed in

Accordance with *Government Auditing Standards*



Dave Yost • Auditor of State

Board of Directors
The Ohio State University Foundation
2040 Blankenship Hall
901 Woody Hayes Drive
Columbus, Ohio 43210-4016

We have reviewed the *Independent Auditor's Report* of The Ohio State University Foundation, Franklin County, prepared by PricewaterhouseCoopers LLP, for the audit period July 1, 2016 through June 30, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Ohio State University Foundation is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

November 28, 2017

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The Ohio State University Foundation

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June 30, 2017 and 2016

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Report of Independent Auditors

To the Board of Directors of
The Ohio State University Foundation:

Report on the Financial Statements

We have audited the consolidated financial statements of The Ohio State University Foundation (the "Foundation"), a component unit of The Ohio State University, appearing on pages 9 to 26, which comprise the consolidated statements of net position as of June 30, 2017 and 2016, the related consolidated statements of revenues, expenses and other changes in net position and of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Foundation's basic consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Foundation's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2017 and 2016, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Required Supplementary Information

The accompanying Management's Discussion and Analysis on pages 3-8 are required by accounting principles generally accepted in the United States of America to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we have obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Foundation's basic consolidated financial statements. The accompanying other information on the long-term investment pool on pages 27 through 28 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2017 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended June 30, 2017. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

October 26, 2017

The Ohio State University Foundation

Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2017

The following Management's Discussion and Analysis ("MD&A") of The Ohio State University Foundation's (the "Foundation") financial performance provides an introduction to the financial statements as of and for the year ended June 30, 2017, with comparative information for the years ended June 30, 2016 and June 30, 2015. The information contained in this MD&A should be considered in conjunction with the information contained in the Foundation's financial statements.

The following sections provide additional details on the Foundation's 2017 financial results and a look ahead at significant economic conditions that are expected to affect the Foundation in the future.

About The Ohio State University Foundation

The Foundation is The Ohio State University's (the "University") fundraising and gift-receiving organization. It was founded in 1985 as a non-profit, tax-exempt organization that advances the mission of the University by pursuing and securing private support to benefit the University students, faculty, patients, research, programs, and facilities.

In 2012, the University officially launched the *But for Ohio State* Campaign, the largest fundraising endeavor in the University's history. The campaign ended September 30, 2016, surpassing its \$2.5 billion goal by more than \$500 million. Its name was inspired by the words of L Brands CEO and former University Board of Trustees Chairman Leslie H. Wexner: "But for Ohio State, I would never have been able to go to college." The campaign raised \$3,007,604,895, including more than \$1 billion for research, \$905 million for faculty support, \$528 million for students, \$262 million for facilities, and \$295 million for other University initiatives.

About the Financial Statements

The following financial statements include all balances for the Foundation and the consolidated financial results for two legally separate entities, Clifton Holdings, LLC and Pelotonia, LLC ("Pelotonia"), which are subject to control by the Foundation. The Statement of Net Position is the Foundation's balance sheet. It reflects the Foundation's assets, liabilities, and net position at June 30, 2017, with comparative information as of June 30, 2016. The Statement of Revenue, Expenses, and Other Changes in Net Position is the Foundation's income statement and reflects its various sources of revenue and categories of expense for the year ended June 30, 2017, with comparative information for Fiscal Year 2016. The Statement of Cash Flows details how cash has increased or decreased during the year ended June 30, 2017, with comparative information for Fiscal Year 2016.

The Ohio State University Foundation
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2017

Statements of Net Position

	2017	2016	2015
Cash and cash equivalents	\$ 4,363,690	\$ 2,494,541	\$ 3,277,377
Pledges receivable — current portion — net	31,930,280	35,395,104	29,479,469
Other current assets	10,942,421	10,057,774	8,696,181
Total current assets	<u>47,236,391</u>	<u>47,947,419</u>	<u>41,453,027</u>
The Ohio State University Long-Term Investment Pool	\$ 877,261,330	\$ 763,331,888	\$ 757,158,186
Pledges receivable, net	74,082,540	65,359,935	72,550,008
Other noncurrent assets	54,383,055	53,994,476	51,106,697
Total noncurrent assets	<u>1,005,726,925</u>	<u>882,686,299</u>	<u>880,814,891</u>
Total assets	<u>\$ 1,052,963,316</u>	<u>\$ 930,633,718</u>	<u>\$ 922,267,918</u>
Trust and annuity liabilities—current	\$ 3,360,531	\$ 3,677,114	\$ 2,237,918
Other current liabilities	2,240,680	1,752,319	284,608
Total current liabilities	<u>5,601,211</u>	<u>5,429,433</u>	<u>2,522,526</u>
Trust and annuity liabilities—noncurrent	\$ 28,787,593	\$ 27,386,912	\$ 24,535,496
Unearned revenue	17,336,076	16,263,529	15,176,602
Other noncurrent liabilities	1,901,174	1,791,122	1,753,153
Total noncurrent liabilities	<u>48,024,843</u>	<u>45,441,563</u>	<u>41,465,251</u>
Total liabilities	<u>\$ 53,626,054</u>	<u>\$ 50,870,996</u>	<u>\$ 43,987,777</u>
Net investment in capital assets	3,271,170	3,518,380	3,765,591
Restricted			
Nonexpendable-Endowment	824,383,421	744,158,867	714,656,747
Expendable	158,732,760	121,123,712	148,446,965
Unrestricted	12,949,911	10,961,763	11,410,838
Total net position	<u>999,337,262</u>	<u>879,762,722</u>	<u>878,280,141</u>
Total liabilities and net position	<u>\$ 1,052,963,316</u>	<u>\$ 930,633,718</u>	<u>\$ 922,267,918</u>

During the year ended June 30, 2017, **cash and cash equivalents** increased \$2 million, to \$4 million. Cash and cash equivalents balances vary year over year based on the levels and timing of cash associated with gifts and pledges, as well as investment activity and disbursements to the University. The Statement of Cash Flows, which is discussed in more detail below, provides additional information on sources and uses of Foundation cash.

The Foundation receives pledges and bequests of financial support from individuals, corporations and other foundations. For current-use and capital gifts, **pledges receivable** and gift revenue are recognized when an unconditional promise to pay is received and all eligibility requirements have been met. Total pledges receivable increased \$5 million, to \$106 million at June 30, 2017, reflecting increases in overall fundraising activity. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, endowment pledges are not recorded as assets until the related gift is received.

Other current assets consist primarily of receivables due from Pelotonia riders for the annual bicycle tour. These receivables increased \$1 million, to \$10 million at June 30, 2017.

The Ohio State University Foundation

Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2017

The Foundation's 2,674 named endowment funds and 244 pending endowment funds are invested in **The Ohio State University Long-Term Investment Pool**. Each named fund is assigned a number of shares in the pool based on the value of the gifts, income-to-principal transfers or transfers of operating funds to that named fund. The fair value of Foundation investments in the Long-Term Investment Pool increased \$114 million, to \$877 million at June 30, 2017, primarily due to \$114 million of net investment gains. Additional information on Foundation net investment income is provided below. Additional information on the University's Long-Term Investment Pool is provided on pages 26 and 27.

Other noncurrent assets consist primarily of investments held under unitrust, annuity trust and gift annuity agreements. The fair value of these investments was relatively stable in 2017, increasing \$1 million, to \$46 million at June 30, 2017.

The Foundation's liabilities consist primarily of **charitable remainder trusts, gift annuity liabilities and gift annuity reserves**. Under these gift arrangements, the Foundation agrees to pay periodic fixed payments to beneficiaries during their lifetimes. The balances associated with these arrangements increased \$1 million, to \$34 million at June 30, 2017, reflecting the use of longer life expectancies in the calculation of these liabilities.

Unearned revenue consists primarily of amounts received from donors that are subject to eligibility requirements. These unearned revenues increased \$1 million, to \$17 million at June 30, 2017. These amounts will be recognized as gift revenue when the related eligibility requirements are met.

The Foundation's total **net position** increased \$120 million, to \$999 million at June 30, 2017, primarily due to \$117 million in net investment income and \$259 million of gifts in 2017, offset by \$235 million of distributions to the University and other expenses of \$21 million. Additional information on Foundation revenues and expenses is provided below.

Prior-Year Highlights

Total current assets increased from \$42 million at June 30, 2015, to \$48 million at June 30, 2016, primarily due to a \$6 million increase in pledges receivable and a \$1 million increase in receivables due from Pelotonia riders. Total noncurrent assets increased from \$881 million at June 30, 2015, to \$883 million at June 30, 2016. Foundation investments in the University's Long-Term Investment Pool contributed \$6 million of this increase. The \$6 million net increase consists of \$63 million of net principal additions, offset by \$30 million of distributions, \$15 million in expenses for the Pool and \$12 million of net investment losses. In addition, noncurrent pledges receivable decreased \$7 million and real estate increased \$3 million reflecting gifts/purchase of real estate waiting to be sold. Net position increased from \$878 million at June 30, 2015 to \$880 million at June 30, 2016, primarily due to \$232 million of gifts in 2016, offset by \$198 million of distributions to the University.

The Ohio State University Foundation
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2017

Statements of Revenues, Expenses and Other Changes in Net Position

	2017	2016	2015
Operating revenues			
Gifts			
Current use gifts	\$ 179,912,140	\$ 156,840,198	\$ 159,743,138
Private capital gifts	26,771,098	10,774,517	\$ 1,688,385
Permanent endowments	<u>52,458,078</u>	<u>64,537,150</u>	<u>60,791,809</u>
Total gifts	259,141,316	232,151,865	222,223,332
Net investment income (loss)	116,623,312	(12,441,257)	38,486,945
Miscellaneous income	<u>1,885,054</u>	<u>1,845,520</u>	<u>1,633,215</u>
Total operating revenues	377,649,682	221,556,128	262,343,492
Operating expenses			
Distributions to OSU			
Pass through gifts	205,061,468	170,259,054	162,859,197
Endowment distributions	34,315,899	30,008,699	28,705,174
Transfers to endowment principal	(5,480,586)	(3,577,208)	(3,274,535)
Other distributions	<u>1,550,778</u>	<u>1,596,389</u>	<u>1,556,695</u>
Total distributions to OSU	235,447,559	198,286,934	189,846,531
Distributions to gift annuitants	1,699,753	1,631,972	1,631,768
Trust distributions outside OSU	-	-	6,017,811
Other expenses	<u>20,927,830</u>	<u>20,154,641</u>	<u>20,745,131</u>
Total operating expenses	258,075,142	220,073,547	218,241,241
Increase in net position	<u>\$ 119,574,540</u>	<u>\$ 1,482,581</u>	<u>\$ 44,102,251</u>

Total **gift revenues** increased \$27 million, to \$259 million in 2017, reflecting strong growth in current-use and private capital gifts. 2017 was a record fundraising year for Ohio State. Over 267,000 alumni and friends made gifts to the University, up from 246,000 in 2016.

Net investment income increased \$129 million, to \$117 million in 2017. Foundation investments in the University Long-Term Investment Pool yielded \$114 million in net investment income, which includes interest, dividends and increases in the fair value of investments.

To start the fiscal year, the Brexit vote impacted world financial markets as the US 10 year-treasury hit a low yield of 1.37% in the flight to quality that ensued. Over the rest of the year, world events and political uncertainty in the U.S. raised concerns about prospects for economic growth. Despite this backdrop, structural low world interest rates combined with low equity market volatility driven by solid corporate earnings and consumer confidence supported strong world equity market investment returns. The All Country World Equity Index returned +19.42% and the S&P500 generated a +17.90% for the fiscal year.

The University's Long-Term Investment Pool (LTIP) returned +14.5% for the fiscal year ending June 30, 2017. The LTIP outperformed on a relative basis to each of its individual benchmarks for its three major asset classes; global equities, fixed income and real assets. The LTIP is a diversified portfolio of investments designed to provide steady growth in a risk controlled structure.

The Ohio State University Foundation

Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2017

The Foundation distributes current-use and private capital gifts to the university upon receipt. These **pass-through gift distributions** increased \$35 million, to \$205 million in 2017, reflecting increases in gift revenues. The Foundation holds endowment gifts and transfers **endowment distributions** to university departments, to be spent for their restricted purposes. These endowment distributions increased \$4 million, to \$34 million in 2017. The annual distribution per share for 2017 was 4.5% of the average fair value per share of Long-Term Investment Pool over the most recent seven-year period. In 2016, the annual distribution was 4.25% of the fair value per share over the most recent seven-year period.

Other expenses consist primarily of expenses charged to the Foundation's shares in the University Long-Term Investment Pool. These expenses were stable at \$15 million in 2017. The overall increase in other expense relates to provisions for uncollectible pledges (up \$1 million in 2017).

Prior-Year Highlights

Foundation net position increased \$2 million in 2016. Operating revenues decreased \$41 million, to \$221 million with increases in gift revenues partially offsetting a \$51 million decrease in net investment income. Operating expenses increased \$2 million, to \$220 million, reflecting increases in gift distributions to the University.

Statements of Cash Flows

	2017	2016	2015
Operating activities	\$ 383,956	\$ 19,453,642	\$ 6,486,341
Investing activities	<u>1,485,193</u>	<u>(20,236,478)</u>	<u>(6,893,640)</u>
Net increase (decrease) in cash and cash equivalents	1,869,149	(782,836)	(407,299)
Cash and cash equivalents, beginning of year	<u>2,494,541</u>	<u>3,277,377</u>	<u>3,684,676</u>
Cash and cash equivalents, end of year	<u>\$ 4,363,690</u>	<u>\$ 2,494,541</u>	<u>\$ 3,277,377</u>

Total Foundation cash and cash equivalents increased \$2 million in 2017. Net cash provided by operating activities decreased \$19 million to \$384,000. Gift receipts were up \$22 million, but this increase was offset by a \$38 million increase in distributions to the University. Net cash flows from investing activities swung from a negative \$20 million to a positive \$1 million, reflecting net purchases and sales of investments.

Current Environment

The *But for Ohio State* Campaign helped more than 760,000 members of Buckeye Nation form deeper, more meaningful bonds with the University through their generosity and influence. Academic and community leaders and Advancement staff are collaborating more efficiently and effectively to ensure that private resources will have the greatest impact in areas that truly matter here in Ohio, across the country, and around the world. The campaign was an incredible success, and also served as a catalyst for what is to come. Future campaigns will benefit from even greater engagement with deans and academic leaders to best align fundraising initiatives to the visions of the individual units. The ideas that result from such enhanced collaboration will be interdisciplinary and transformative for the University and the community.

Moving beyond the campaign into Fiscal Year 2017, a record 267,280 donors supported Ohio State with \$403 million in annual support, an increase of 9% over the previous year. The University long-term investment pool distributed \$167 million in support of University priorities, including \$28 million for student scholarships, \$39 million to educational programming, \$21 million to faculty, and \$9

**The Ohio State University Foundation
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2017**

million to research. The University continues its work to show donors the clear impact of their gifts and to create meaningful connections between them and the recipients of their selfless generosity.

The Ohio State University Foundation
Consolidated Statements of Net Position
As of June 30, 2017 and 2016

	2017	2016
Assets		
Current assets		
Cash and cash equivalents	\$ 4,363,690	\$ 2,494,541
Pledges receivable — current portion — net	31,930,280	35,395,104
Accounts receivable	9,872,120	9,878,503
Accrued interest receivable	2,072	22,587
Marketable securities	99,419	40,014
Charitable remainder trusts	824,013	-
Other assets	144,797	116,670
Total current assets	<u>47,236,391</u>	<u>47,947,419</u>
Noncurrent Assets		
The Ohio State University Long-Term Investment Pool	877,261,330	763,331,888
Marketable securities	18,912,321	17,871,203
Investment Partnerships	212,612	241,100
Charitable remainder trusts	26,932,872	27,166,892
Life insurance policies	1,345,459	1,313,280
Real estate	3,708,621	3,883,621
Pledges receivable, net	74,082,540	65,359,935
Capital assets, net	3,271,170	3,518,380
Total noncurrent assets	<u>1,005,726,925</u>	<u>882,686,299</u>
Total assets	<u>\$ 1,052,963,316</u>	<u>\$ 930,633,718</u>
Liabilities and Net Position		
Current liabilities		
Charitable remainder trust liability	\$ 1,765,150	\$ 1,780,187
Gift annuity liabilities	1,595,381	1,896,927
Advance from The Ohio State University	1,852,876	1,547,664
Accrued liabilities	387,804	204,655
Total current liabilities	<u>5,601,211</u>	<u>5,429,433</u>
Noncurrent Liabilities		
Unearned revenue	17,336,076	16,263,529
Charitable remainder trust liability	15,120,953	13,258,722
Gift annuity liabilities	13,666,640	14,128,190
Gift annuity reserve	1,901,174	1,791,122
Total noncurrent Liabilities	<u>48,024,843</u>	<u>45,441,563</u>
Total liabilities	<u>53,626,054</u>	<u>50,870,996</u>
Net Position		
Net investment in capital assets	3,271,170	3,518,380
Restricted		
Nonexpendable - Endowment	824,383,421	744,158,867
Expendable	158,732,760	121,123,712
Unrestricted	12,949,911	10,961,763
Total net position	<u>999,337,262</u>	<u>879,762,722</u>
Total liabilities and net position	<u>\$ 1,052,963,316</u>	<u>\$ 930,633,718</u>

The accompanying notes are an integral part of these consolidated financial statements.

The Ohio State University Foundation
Consolidated Statements of Revenues, Expenses and Other Changes in Net
Position
For the years ended June 30, 2017 and 2016

	2017	2016
Operating Revenues		
Gifts		
Current use gifts	179,912,140	156,840,198
Private capital gifts	26,771,098	10,774,517
Permanent endowments	52,458,078	64,537,150
Total gifts	<u>\$ 259,141,316</u>	<u>\$ 232,151,865</u>
Net investment income		
Interest and dividends	18,157,321	15,232,329
Increase (decrease) in fair value of investments	98,296,827	(27,679,249)
Gift annuity reserve adjustment	1,970,343	(2,036,959)
Change in carrying value of remainder trusts	<u>(1,801,179)</u>	<u>2,042,622</u>
Total net investment income (loss)	<u>116,623,312</u>	<u>(12,441,257)</u>
Miscellaneous income	<u>1,885,054</u>	<u>1,845,520</u>
Total operating revenues	<u>377,649,682</u>	<u>221,556,128</u>
Operating Expenses		
Distributions to The Ohio State University		
Pass through gifts	205,061,468	170,259,054
Endowment distributions	34,315,899	30,008,699
Transfers to endowment principal	(5,480,586)	(3,577,208)
Other distributions	<u>1,550,778</u>	<u>1,596,389</u>
Total Distributions to The Ohio State University	<u>235,447,559</u>	<u>198,286,934</u>
Distributions to gift annuitants	1,699,753	1,631,972
Salaries and benefits	2,176,191	2,161,496
Long-Term Investment Pool expense	14,907,238	15,352,903
Professional services, audit and legal fees	982,044	421,235
Provision for uncollectible pledges	151,194	(637,533)
Depreciation	247,210	247,210
Rent and utilities expense	92,590	266,568
Other	<u>2,371,363</u>	<u>2,342,762</u>
Total operating expenses	<u>258,075,142</u>	<u>220,073,547</u>
Increase in net position	119,574,540	1,482,581
Net position, beginning of year	<u>879,762,722</u>	<u>878,280,141</u>
Net position, end of year	<u>\$ 999,337,262</u>	<u>\$ 879,762,722</u>

The accompanying notes are an integral part of these consolidated financial statements.

The Ohio State University Foundation
Consolidated Statements of Cash Flows
For the years ended June 30, 2017 and 2016

	2017	2016
Operating Activities		
Cash received from contributors	\$ 254,384,271	\$ 232,363,525
Funding from The Ohio State University	-	320,000
Receipt of new gift annuity agreements	1,317,299	2,541,711
Receipt of new trust agreements	46,015	1,851,770
Distributions to The Ohio State University	(235,447,559)	(198,346,171)
Income distributions paid to gift annuitants	(1,699,753)	(1,631,972)
Payments to vendors for supplies and services	(18,170,086)	(18,307,912)
Payments to or on behalf of employees	(2,141,726)	(2,126,754)
University employee benefit payments	(34,465)	(34,742)
Advance from The Ohio State University	305,212	1,392,155
Other receipts	1,824,748	1,432,032
Net cash provided by operating activities	<u>383,956</u>	<u>19,453,642</u>
Investing Activities		
Proceeds from sales of investments	52,538,356	48,534,918
Purchases of investments	(69,230,999)	(84,003,510)
Interest and dividends received	16,307,323	14,725,331
Investment income received on gift annuities	1,870,513	506,783
Net cash used in investing activities	<u>1,485,193</u>	<u>(20,236,478)</u>
Increase (decrease) in cash and cash equivalents	1,869,149	(782,836)
Cash and cash equivalents, beginning of year	<u>2,494,541</u>	<u>3,277,377</u>
Cash and cash equivalents, end of year	<u>\$ 4,363,690</u>	<u>\$ 2,494,541</u>

The accompanying notes are an integral part of these consolidated financial statements.

The Ohio State University Foundation
Consolidated Statements of Cash Flows, Cont'd
For the years ended June 30, 2017 and 2016

	2017	2016
Reconciliation of Increase in Net Position to Net Cash		
Provided by Operating Activities		
Increase in net position	\$ 119,574,540	\$ 1,482,581
Adjustments to reconcile increase (decrease) in net position to net cash provided by operating activities		
Depreciation	247,210	247,210
Decrease (Increase) in fair value of investments	(98,296,827)	27,679,249
Change in cash surrender value of life insurance policies	(32,179)	(27,376)
Total gifts received in real estate & partnerships	(427,000)	(1,277,569)
Pledge allowance	151,194	(637,533)
Interest and dividends received	(16,307,323)	(14,725,331)
Investment income received on gift annuities	(1,870,513)	(506,783)
Changes in assets and liabilities		
Pledges receivable	(5,408,975)	1,911,971
Accounts receivable	6,383	(1,509,669)
Unearned revenue	1,072,547	1,086,927
Accrued interest receivable	20,515	(215)
Other current assets	(28,127)	(66,112)
Advance from The Ohio State University	305,212	1,392,155
Accrued liabilities	183,149	75,556
Gift annuities liabilities	(763,096)	4,481,463
Gift annuity reserve	110,052	37,969
Charitable remainder trust liability	1,847,194	(190,851)
Net cash provided by operating activities	<u>\$ 383,956</u>	<u>\$ 19,453,642</u>
Non Cash Transactions		
Stock Gifts	\$ 21,723,172	\$ 20,746,381
Increase (decrease) in fair value of investments	98,296,827	(27,679,249)
Change in carrying value of remainder trusts	(1,801,179)	2,042,622

The accompanying notes are an integral part of these consolidated financial statements.

The Ohio State University Foundation

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1. ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed in preparing the financial statements:

Organization

The Ohio State University Foundation (the "Foundation") was incorporated as a not-for-profit organization in the State of Ohio on April 19, 1985, and operates for the benefit of and is a component unit of The Ohio State University (the "University"). The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Basis of Presentation

The Foundation is the single member of two LLC's, Clifton Holdings, LLC ("Clifton"), and Pelotonia LLC (formerly known as NetJames Holdings LLC) ("Pelotonia"). Clifton was created in 2007 to own and maintain the University President's residence. Pelotonia, which was created in 2008, organizes annual bicycle tours to raise funds to support cancer research. These LLC's are included with the Foundation's consolidated financial statements in a blended presentation.

The Foundation, as a component unit of the University, is included in the University's consolidated financial statements in a blended presentation.

Certain prior period amounts have been reclassified to conform to the current period presentation.

Basis of Accounting

The financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board ("GASB"). The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents

The Foundation considers all demand deposit accounts and money market funds with a maturity of three months or less to be cash equivalents except for the money market funds held as part of the gift annuities and charitable remainder trusts agreements at the date of purchase. All cash is principally on deposit with two banks.

At June 30, 2017, the carrying amount of the Foundation's cash and cash equivalents with financial institutions was \$4,363,690 of which \$1,042,405 is covered by federal deposit insurance. The amount remaining of \$3,321,285 is uncollateralized.

Pledges Receivable

The Foundation receives pledges and bequests of financial support from corporations, foundations, and individuals. Revenue is recognized when a pledge representing an unconditional promise to pay is received and all eligibility requirements have been met. In the absence of such promise, revenue is recognized when the gift is received. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, endowment pledges are not recorded as assets until the related gift is received. The Foundation reduces pledges receivable to estimated net realizable value by recording an allowance for uncollectible pledges. An allowance for uncollectible pledges receivable is provided based on management's judgment of potential uncollectible amounts and includes such factors as prior collection history, type of gift and nature of

The Ohio State University Foundation

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fundraising. For the years ended June 30, 2017 and 2016 the Foundation recorded an allowance against pledges receivable of \$4,767,420 and \$4,616,226 respectively.

Net Position

The Foundation's financial resources are classified for accounting and reporting purposes into the following four net position categories:

- **Net investment in capital assets**

Capital assets, net of accumulated depreciation, cash restricted for capital projects and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets

- **Restricted - Nonexpendable**

Amounts subject to externally-imposed stipulations that they be maintained in perpetuity and invested for the purpose of generating present and future income, which may either be expended or added to the principal by the University. These assets primarily consist of the Foundation's permanent endowments.

- **Restricted - Expendable**

Amounts whose use is subject to externally-imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

- **Unrestricted**

Amounts which are not subject to externally-imposed stipulations.

Gifts

Gifts are recorded at their fair value as of the date received. This includes gifts of real estate for which fair value is obtained by an independent appraisal.

In accordance with GASB Statement No. 33, private donations are recognized when all eligibility requirements are met. The Foundation has recorded pledges receivable, net of allowances, of \$106,012,820 and \$100,755,039 as of June 30, 2017 and 2016, respectively.

In-Kind Income

The facilities occupied by the Foundation are provided by the University. In addition, the University's Office of University Development and the Office of Business and Finance assist the Foundation in fund-raising, gift processing, and accounting. The value of the office space and services provided constitutes additional in-kind income to the Foundation, but is not reported in the Foundation's financial statements.

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Investments

All 2,674 Board-established named Foundation endowments and 244 Foundation pending funds are invested in The Ohio State University Long-Term Investment Pool ("University Long-Term Investment Pool"). Each named fund is assigned a number of shares in the University Long-Term Investment Pool based on the value of the gifts, income-to-principal transfers, or transfers of operating funds to that named fund. For donor restricted endowments, the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted in Ohio, permits the University's Board of Trustees to appropriate an amount of realized and unrealized endowment appreciation as the Board deems prudent. The UPMIFA, as adopted in Ohio, establishes a 5% safe harbor of prudence for funds appropriated for expenditure. Net realized and unrealized appreciation, after the spending rule distributions, is retained in the University Long-Term Investment Pool, and the associated net position is classified as restricted- expendable unless otherwise restricted by the donor. The depreciation on non-expendable endowment funds is recorded as a reduction to restricted non-expendable net position. Recovery on these funds is recorded as an increase in restricted non-expendable up to the historical value of each fund. Per UPMIFA (§ 1715.53(D)(C)), the reporting of such deficiencies does not create an obligation on the part of the endowment fund to restore the fair value of those funds.

Annual distributions to named funds in the University Long-Term Investment Pool are computed using the share method of accounting for pooled investments. For the year ended June 30, 2017, the annual distribution per share was 4.5% of the average fair value per share of the University Long-Term Investment Pool over the most recent seven-year period. For the year ended June 30, 2016, the annual distribution per share was 4.25% of the average fair value per share of the University Long-Term Investment Pool over the most recent seven-year period. These distributions, which were transferred from the University Long-Term Investment Pool to current restricted endowment distribution funds, totaled \$34,315,899 and \$30,008,699 in fiscal years 2017 and 2016, respectively.

At June 30, 2017, the fair value of the Foundation's gifted endowments was \$877,261,330, which is approximately \$10,791,279 above the historical dollar value of \$866,470,051. Although the fair value of the Foundation's gifted endowments in total exceeds the historical cost at June 30, 2017, there were 1,020 named funds underwater. The fair value of these underwater funds at June 30, 2017 was \$315,032,670, which was \$35,156,928 below the historical dollar value of \$350,189,598. At June 30, 2016, the fair value of the Foundation's gifted endowments was \$763,331,888, which is approximately \$53,580,760 below the historical dollar value of \$816,912,648. At June 30, 2016, there were 2,107 named funds underwater. The fair value of these underwater funds at June 30, 2016 was \$547,608,510, which was \$69,285,280 below the historical dollar value of \$616,893,790.

The interests in unitrust, annuity trust, and gift annuity agreements (charitable remainder trusts and marketable securities) are carried at fair value. Mutual funds are recorded at share values reported by investment managers. Bonds and notes are recorded at values determined by market quotations. Realized gains or losses from sale or redemption of investments are calculated based upon the cost of the specific investment sold or redeemed. Purchases and sales of investments are reflected on a trade-date basis.

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The Foundation is the owner and beneficiary of certain restricted life insurance policies, including paid up single premium whole life policies and annual premium whole life policies for which the donors are paying the premiums. These policies are reported at their cash surrender values. Changes in cash surrender value are reported as miscellaneous income.

Real estate is recorded at the appraised value at the date of the gift. These assets totaled \$3,708,621 and \$3,883,621 at June 30, 2017 and 2016, respectively.

Investment income is recorded on the accrual basis in the fund in which the income was earned, except for income derived from endowments. Investment income on endowment fund assets is recorded in the fund to which the income was designated by the donor.

Capital Assets, Net

The University President's Residence is reported as a capital asset and is shown net of accumulated depreciation. The net book value of the residence was \$3,271,170 and \$3,518,380 at June 30, 2017 and 2016, respectively.

Reimbursement Agreement and Resolution

The Foundation and the University entered into an agreement in March 1989 to reimburse costs incurred by the University on behalf of the Foundation and to repay related advances from the University. In connection therewith, the Foundation's Board of Directors approved a resolution in April 1989, authorizing the Foundation to utilize undesignated income earned from unrestricted/restricted funds, as needed, to reimburse the University. On July 7, 2000, the University's Board of Trustees approved a resolution creating a funding plan for University development. Part of this plan includes support to reduce the Foundation's outstanding liability to the University. No reduction was made in 2017; a reduction of \$320,000 was recognized in 2016.

Newly Issued Accounting Pronouncements

In March 2016, the GASB issued Statement No. 81, Irrevocable Split-Interest Agreements. This standard requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. It also requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. In general, revenue recognition related to these agreements will be delayed until a specified event occurs (such as the death of the lead beneficiary). This standard is effective for periods beginning after December 15, 2016 (FY2018).

In January 2017, the GASB issued Statement No. 84, Fiduciary Activities. This standard establishes criteria for identifying and reporting fiduciary activities of all state and local governments. The focus of the criteria generally is whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. Governments with activities meeting the criteria are required to present these activities in a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to this requirement is provided for a business-type activity that expects to hold assets in a custodial fund for three months or less. This standard is effective for periods beginning after December 15, 2018 (FY2020).

In March 2017, the GASB issued Statement No. 85, Omnibus 2017. This standard addresses a variety of practice issues identified during implementation and application of certain GASB Statements. It provides guidance on blending of component units (confirming limited applicability of blended presentation for BTAs), accounting for goodwill acquired prior to the issuance of GASB 69,

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accounting for real estate held for investment by insurance entities, clarification of circumstances in which money-market investments may be valued at amortized cost, and various technical fixes related to the implementation of the new OPEB standards. This standard is effective for periods beginning after June 15, 2017 (FY2018).

Foundation management is currently assessing the impact that implementations of GASB Statements 81, 84 and 85 will have on the Foundation's financial statements.

2. INVESTMENTS

A substantial portion of the Foundation's investments are held by the University in the University Long-Term Investment Pool, a unitized investment pool that also includes gifted University endowments and University operating funds that are internally designated to function as endowments. The Foundation also holds certain other investments that are related to charitable arrangements. A summary of investments as of June 30, 2017 and 2016 are as follows:

	2017	2016
University Long-Term Investment Pool	\$ 877,261,330	\$ 763,331,888
Investments directly owned by Foundation:		
Investments held by charitable remainder trusts	27,756,885	27,166,892
Marketable securities	19,011,740	17,911,217
Investment partnership	212,612	241,100
Life insurance policies	1,345,459	1,313,280
Real estate	<u>3,708,621</u>	<u>3,883,621</u>
Total investments	929,296,647	813,847,998
Less current portion	<u>923,432</u>	<u>40,014</u>
Total Long-Term Investments	<u>\$ 928,373,215</u>	<u>\$ 813,807,984</u>

The Foundation's directly owned investments by investment type at June 30, 2017 and 2016 are as follows:

	2017	2016
Equity mutual funds	\$ 23,736,445	\$ 22,974,123
U.S. government obligations	352,334	2,745,174
Corporate bonds	-	214,157
Bond mutual funds	16,139,313	16,692,476
Private equity	196,752	225,240
Real assets	9,400,210	5,292,919
Cash and cash equivalents	864,804	1,058,741
Other	<u>1,345,459</u>	<u>1,313,280</u>
Total	<u>\$ 52,035,317</u>	<u>\$ 50,516,110</u>

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The Ohio State University Long-Term Investment Pool

The University Long-Term Investment Pool is a unitized investment pool consisting of gifted endowment funds of the University, gifted endowment funds of the Foundation, and quasi endowment funds which have been internally designated to function as endowments. The University Long-Term Investment Pool operates with a long-term investment goal of preserving and maintaining the real purchasing power of the principal while allowing for an annual distribution. The University's Board of Trustees approved the following thematic asset classes, allocation ranges, and benchmarks for the University Long-Term Investment Pool:

Asset Class	Range	Benchmark
Global Equities	40-80%	MSCI All Country World Index (ACWI)
Global Credit	10-50%	Barclays U.S. Aggregate Bond Index
Real Assets	5-20%	U.S. Consumer Price Index (CPI) +5%

The University Long Term Investment Pool is designed to produce competitive risk-adjusted returns that will provide real growth over time. Benchmarks are selected to measure the performance of the investments in each asset class considering the goals and expectations for each asset class.

The Global Equities category includes domestic equity, international equity, emerging market equity, hedged funds and private equity. The Global Credit category includes global fixed income and relative value/macro, credit oriented managers and private credit. The Real Assets category includes real estate, and infrastructure funds.

The University's Chief Financial Officer, in consultation with The Ohio State University Board of Trustees, reviews the thematic asset classes, allocation ranges and benchmarks for the Long-Term Investment Pool on a periodic basis.

Information on Fair Value of Investments

Fair value is defined in the accounting standards as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities reported at fair value are organized into a hierarchy based on the levels of inputs observable in the marketplace that are used to measure fair value. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, liquidity statistics, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- *Level 1* – Prices based on unadjusted quoted prices in active markets that are accessible for identical assets or liabilities are classified as Level 1. Level 1 investments include directly held equity securities, registered bonds, registered equity mutual funds and money market funds.
- *Level 2* – Quoted prices in the markets that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly, are classified as Level 2.

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Level 2 investments include fixed income securities that are valued using market information.

- *Level 3* – Investments classified as Level 3 have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value of these investments are based upon the best information in the circumstance and may require significant management judgment. Level 3 investments include real estate and other assets.
- *Net Asset Value (NAV)* – Investments whose fair value is measured at NAV are excluded from the fair value hierarchy. Investments in non-governmental entities that do not have a readily determinable fair value may be valued at NAV if the NAV is determined in accordance with the fair value measurement principles provided by the FASB standards relevant to investment companies. Alternative investments with an NAV reported under an alternative basis are reflected as Level 3 investments. Investments measured at NAV included hedge funds, private equity investments.
- *Not Leveled* – Cash is not measured at fair value and, thus, is not subject to the fair value disclosure requirements.

The fair value of the Foundation's directly owned investments by category as of June 30, 2017 were as follows:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV as practical expedient (NAV)	Total Fair Value
Equity mutual funds	\$ 23,736,445	\$ -	\$ -	\$ -	\$ 23,736,445
US government obligations		352,334	-	-	352,334
Bond mutual funds	16,139,313	-	-	-	16,139,313
Private equity	-	-	-	196,752	196,752
Real assets	5,675,729	-	3,708,621	15,860	9,400,210
Cash equivalents	864,804	-	-	-	864,804
Other	-	-	1,345,459	-	1,345,459
Total	<u>\$ 46,416,291</u>	<u>\$ 352,334</u>	<u>\$ 5,054,080</u>	<u>\$ 212,612</u>	<u>\$ 52,035,317</u>

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The fair value of the Foundation's directly owned investments by category as of June 30, 2016 were as follows:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV as practical expedient (NAV)	Total Fair Value
Equity mutual funds	\$ 22,974,123	\$ -	\$ -	\$ -	\$ 22,974,123
US government obligations		2,745,174	-	-	2,745,174
Corporate bonds	-	214,157	-	-	214,157
Bond mutual funds	16,692,476	-	-	-	16,692,476
Private equity	-	-	-	225,240	225,240
Real assets	1,393,438	-	3,883,621	15,860	5,292,919
Cash equivalents	1,058,741	-	-	-	1,058,741
Other	-	-	1,313,280	-	1,313,280
Total	\$ 42,118,778	\$ 2,959,331	\$ 5,196,901	\$ 241,100	\$ 50,516,110

Additional Information on Investments Measured at the NAV

Additional information on fair values, unfunded commitments, remaining life and redemption for investments measured at the NAV for the Foundation's directly owned interest-bearing investments as of June 30, 2017 is as follows:

	Fair Value	Unfunded Commitments	Remaining Life	Redemption Notice Period	Redemption Restrictions
Private equity	\$ 196,752	\$ -	1-10 years	Partnerships ineligible for redemption	Not redeemable
Real assets	15,860	-	No limit	30 to 90 day notice periods	
	<u>\$ 212,612</u>	<u>\$ -</u>			

Additional Risk Disclosures for Investments

Statements Nos. 3 and 40 of the Governmental Accounting Standards Board require certain additional disclosures related to the custodial, interest-rate, credit and foreign currency risks associated with deposits and investments.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the custodian, University or Foundation investments may not be recovered. It is the policy of the University and the Foundation to hold investments in custodial accounts, and the securities are registered solely in the name of the University or the Foundation, as applicable. All investments are transacted with nationally reputable brokerage firms, offering protection by the Securities Investor Protection Corporation.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates.

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The maturities of the Foundation's directly owned interest-bearing investments as of June 30, 2017 were as follows:

	Investment Maturities (in Years)				
	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. government obligations	\$ 352,334	\$ -	\$ -	\$ 352,334	\$ -
Bond mutual funds	16,139,313	1,218,563	6,702,764	6,001,278	2,216,708
Total	<u>\$ 16,491,647</u>	<u>\$ 1,218,563</u>	<u>\$ 6,702,764</u>	<u>\$ 6,353,612</u>	<u>\$ 2,216,708</u>

The maturities of the Foundation's directly owned interest-bearing investments as of June 30, 2016 were as follows:

	Investment Maturities (in Years)				
	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. government obligations	\$ 2,745,174	\$ 2,152,625	\$ 592,549	\$ -	\$ -
Corporate bonds	214,157	-	214,157	-	-
Bond mutual funds	16,692,476	892,239	9,005,737	4,823,221	1,971,279
Total	<u>\$ 19,651,807</u>	<u>\$ 3,044,864</u>	<u>\$ 9,812,443</u>	<u>\$ 4,823,221</u>	<u>\$ 1,971,279</u>

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality information — as commonly expressed in terms of the credit ratings issued by nationally recognized statistical rating organizations such as Moody's Investors Service, Standard & Poor's, or Fitch Ratings — provides a current depiction of potential variable cash flows and credit risk.

Per GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3* ("GASB 40"), unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. GASB 40 also provides that securities with split ratings, or a different rating assignment, are disclosed using the rating indicative of the greatest degree of risk.

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The credit ratings of the Foundation's directly owned interest-bearing investments as of June 30, 2017 were as follows:

Credit Rating (S & P)	Total	U.S.	
		Government Obligations	Bond Mutual Funds
AAA	\$ 8,880,302	\$ -	\$ 8,880,302
AA	1,214,757	352,334	862,423
A	4,335,770	-	4,335,770
BBB	584,064	-	584,064
BB	743,244	-	743,244
B	443,551	-	443,551
CCC	288,819	-	288,819
Not rated	1,140	-	1,140
Total	<u>\$ 16,491,647</u>	<u>\$ 352,334</u>	<u>\$ 16,139,313</u>

The credit ratings of the Foundation's directly owned interest-bearing investments as of June 30, 2016 were as follows:

Credit Rating (S & P)	Total	U.S.		
		Government Obligations	Corporate Bonds	Bond Mutual Funds
AAA	\$ 9,806,522	\$ -	\$ 214,157	\$ 9,592,365
AA	4,026,411	2,745,174	-	1,281,237
A	2,902,566	-	-	2,902,566
BBB	2,570,407	-	-	2,570,407
BB	119,360	-	-	119,360
B	30,395	-	-	30,395
C	74,951	-	-	74,951
Not rated	121,195	-	-	121,195
Total	<u>\$ 19,651,807</u>	<u>\$ 2,745,174</u>	<u>\$ 214,157</u>	<u>\$ 16,692,476</u>

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Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The Foundation's exposure to foreign currency risk for investments owned directly by the Foundation as of June 30, 2017 was as follows:

	Equity Mutual Funds	Bond Mutual Funds
Australian Dollar	\$ 383,366	\$ 232,349
Brazilian Real	151,592	47,167
Canadian Dollar	368,249	(2,892)
Chilean Peso	26,419	-
Chinese Yuan	412,288	304
Colombia Peso	59,244	-
Czech Koruna	3,651	-
Danish Krone	64,771	320
Egyptian Pound	2,840	-
EURO	2,667,877	110,115
Great Britain Pound Sterling	1,459,574	130,926
Hong Kong Dollar	552,772	1,825
Hungarian Forint	8,942	-
Indian Rupee	249,284	15,677
Indonesian Rupiah	61,341	19,889
Israeli Shekel	15,879	(453)
Japanese Yen	1,589,078	105,650
Korean Won	385,275	(128,712)
Malaysian Ringgit	65,570	7,603
Mexican Peso	109,288	146,350
New Taiwan Dollar	323,065	(174,103)
New Zealand Dollar	8,104	(32,536)
Norwegian Krone	95,932	47,297
Peruvian Nuevosol	5,493	7,907
Philippine Peso	30,476	(453)
Polish Zloty	35,547	-
Qatari RIAL	34	-
Russian Rouble	33,181	15,665
Singapore Dollar	61,336	(127,849)
South Africa Rand	146,312	1,062
Swedish Krona	190,761	30,091
Swiss Franc	501,473	(7,295)
Thai Baht	53,075	(792)
Turkish Lira	29,462	25,547
UAE Dirham	34	-
	<u>\$ 10,151,585</u>	<u>\$ 470,659</u>

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The Foundation's exposure to foreign currency risk for investments owned directly by the Foundation as of June 30, 2016 was as follows:

	Equity Mutual Funds	Bond Mutual Funds
Australian Dollar	\$ 167,161	\$ (2,637)
Brazilian Real	45,939	16,800
Canadian Dollar	218,138	3,482
Cayman Islands Dollar	9	-
Chilean Peso	9,774	-
Chinese Yuan	5,316	(15,616)
Colombia Peso	3,992	-
Czech Koruna	58	-
Danish Krone	44,798	(147)
Egyptian Pound	3,141	-
EURO	652,301	(25,384)
Great Britain Pound Sterling	440,376	(16,154)
Hong Kong Dollar	219,799	1,031
Hungarian Forint	3,199	-
Iceland Krona	-	158
Indian Rupee	75,235	147
Indonesian Rupiah	16,523	295
Israeli Shekel	15,926	-
Japanese Yen	558,495	(3,094)
Malaysian Ringgit	26,160	-
Mexican Peso	29,642	8,297
New Taiwan Dollar	94,595	(13,406)
New Zealand Dollar	9,474	1,343
Norwegian Krone	16,132	622
Peruvian Nuevosol	88	-
Philippine Peso	13,031	-
Polish Zloty	6,662	-
Russian Rouble	555	8,397
Singapore Dollar	35,132	(26,960)
South Korean Won	110,125	(737)
Sri Lanka - Rupee	52,301	147
Swedish Krona	67,466	12,375
Swiss Franc	197,970	(12,228)
Thai Baht	19,489	-
Turkish Lira	9,861	-
UAE Dirham	6,224	-
	<u>\$ 3,175,087</u>	<u>\$ (63,269)</u>

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3. GIFT ANNUITIES

The Foundation has entered into charitable gift annuity agreements, which provide, among other matters, that the Foundation shall pay periodic fixed payments to beneficiaries during their lifetimes. Charitable gift annuities differ from other charitable giving options in that the annuity is a general obligation of the Foundation. Accordingly, if the assets of the gift are exhausted as a result of required payments to beneficiaries, then the unrestricted assets of the Foundation will be utilized to fund future payments.

The Foundation accounts for such agreements by recording the fair market value of assets donated as of the date of the gift, and by recording the present value of the annuities payable, based on the term of the agreement, as a liability. The present value calculation is based on a combination of the agreed-upon payout rate, actuarial assumptions on mortality rates and a discount rate. The discount rates were 2.4% and 1.8% at June 30, 2017 and 2016, respectively. The balance of the gift is recorded as a reserve for future payments.

As of June 30, 2017 and 2016 the assets related to these investments had a fair market value of \$19,011,740 and \$17,911,217 respectively, a present value of annuities payable of \$15,262,021 and \$16,025,117 respectively and reserves of \$1,901,174 and \$1,791,122 respectively. The assets are recorded as Marketable Securities on the Consolidated Statements of Net Position.

4. UNITRUST AND ANNUITY TRUST AGREEMENTS

An officer of the Foundation, acting as trustee, enters into unitrust and annuity trust agreements ("charitable remainder trusts"), which provide, among other matters, that the trustee shall pay beneficiaries periodic payments until either the assets of the trust have been exhausted or until the death of the beneficiaries.

Upon death of the beneficiaries, any remaining property in the trust will be transferred to the Foundation in accordance with the agreements.

The Foundation accounts for such agreements by recording the fair market value of assets donated and by recording the present value of the annuity payable, based on the agreement, as a liability. The Foundation had fair market value for charitable remainder trusts of \$27,756,885 and \$27,166,892 as of June 30, 2017 and June 30, 2016, respectively and a present value of annuities payable of \$16,886,103 and \$15,038,909 respectively.

5. OTHER LIABILITIES

Other liability activity for the year ended June 30, 2017 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Unearned revenue	\$ 16,263,529	\$ 11,876,763	\$ 10,804,216	\$ 17,336,076	\$ -
Charitable remainder trust liability	15,038,909	1,992,864	145,670	16,886,103	1,765,150
Gift annuity liabilities	16,025,117	649,397	1,412,493	15,262,021	1,595,381
Gift annuity reserve	1,791,122	1,826,807	1,716,755	1,901,174	-
	<u>\$ 49,118,677</u>	<u>\$ 16,345,831</u>	<u>\$ 14,079,134</u>	<u>\$ 51,385,374</u>	<u>\$ 3,360,531</u>

The Ohio State University Foundation
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

Other liability activity for the year ended June 30, 2016 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Unearned revenue	\$ 15,176,602	\$ 6,066,335	\$ 4,979,408	\$ 16,263,529	\$ -
Charitable remainder trust liability	15,229,760	1,058,968	1,249,819	15,038,909	1,780,187
Gift annuity liabilities	11,543,654	4,961,656	480,193	16,025,117	1,896,927
Gift annuity reserve	1,753,153	1,299,613	1,261,644	1,791,122	-
	<u>\$ 43,703,169</u>	<u>\$ 13,386,571</u>	<u>\$ 7,971,064</u>	<u>\$ 49,118,677</u>	<u>\$ 3,677,114</u>

6. RELATED-PARTY TRANSACTIONS

The University made net advances to the Foundation of \$1,852,876 and \$1,547,664 as of June 30, 2017 and 2016, respectively. The Foundation distributed \$235,447,559 and \$198,286,934, in fiscal years 2017 and 2016, respectively, to the University as directed by donors. The Foundation had no receivables from the University as of June 30, 2017 and June 30, 2016.

As noted previously, the Foundation invests its gifted endowment funds in the University Long-Term Investment Pool. The University employs the share method of accounting for pooled investments and for proportionate distribution of income as well as allocation of expenses to each fund which participates in the pool.

Clifton entered into an agreement on May 1, 2008, to lease the President's house to the University for \$1 a year.

The Ohio State University Foundation

Supplementary Information on the Long-Term Investment Pool

Year Ended June 30, 2017

The following section of the financial report provides additional information on the university's Long-Term Investment Pool, including a summary of changes in market value, investment returns and related expenses. Additional details on university investments, including asset allocations, endowment distribution policies, investment by type and risk disclosures, are provided in Notes 1 and 3 to the Financial Statements.

In 2017, the market value of the university's Long-Term Investment Pool – which includes gifted endowments, long-term investments of university operating funds and other funds internally designated to function as endowments – increased \$637 million, to \$4.25 billion at June 30, 2017. The Long-Term Investment Pool activity for 2017 is summarized below:

Long-Term Investment Pool Activity (in thousands)

	Gifted Endowments		Quasi - Endowments		Total
	University	Foundation	Operating	Designated	
Balance at June 30, 2016	\$ 977,173	\$ 763,332	\$ 1,203,959	\$ 672,098	\$ 3,616,562
Net Principal: Additions/(Withdrawals)	5,966	49,557	(1,309)	269,850	324,064
Change in Fair Value	120,236	97,309	147,630	107,583	472,758
Income Earned	20,242	16,286	24,852	17,604	78,984
Distributions	(42,767)	(34,316)	(52,604)	(36,923)	(166,610)
Expenses	(18,529)	(14,907)	(22,749)	(16,114)	(72,299)
Balance at June 30, 2017	\$ 1,062,321	\$ 877,261	\$ 1,299,779	\$ 1,014,098	\$ 4,253,459

Net principal additions (withdrawals) for gifted endowments include new endowment gifts and reinvestment of unused endowment distributions. **Change in fair value** includes realized gains and losses for assets sold during the year and unrealized gains and losses for assets held in the pool at June 30, 2017. **Income earned** includes interest and dividends and is used primarily to fund **distributions**. **Expenses** include investment management expenses (\$55 million), University Development related expenses (\$16 million) and other investment related expenses (\$1 million).

Investment Returns and Expenses

The investment return for the Long-Term Investment Pool was 14.5% for fiscal year 2017. The annualized investment returns for the three-year and five-year periods were 4.7% and 7.9%, respectively. These returns -- which are net of investment management expenses as defined by Cambridge Associates for its annual survey -- are used for comparison purposes with other endowments and various benchmarks. In addition to the \$55 million of investment management expenses, which reduced the pool by 1.5% in fiscal year 2017, the \$16 million of University Development expenses and \$1 million of other investment related expenses further reduced the pool by 0.5%.

**The Ohio State University Foundation
Supplementary Information on the Long-Term Investment Pool
Year Ended June 30, 2017**

Additional Information

For more information on how the Long-Term Investment Pool is invested, please visit the Office of Investments website at: investments.osu.edu.

Additional details on university and foundation endowments, including balances for individual funds, are available on the Office of the Controller's website at:

go.osu.edu/EndowAdmin (click on the "Endowment Descriptions and Balances" link).



Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors of
The Ohio State University Foundation:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of The Ohio State University Foundation (the "Foundation"), a component unit of The Ohio State University, appearing on pages 9 to 26, which comprise the consolidated statement of net position as of June 30, 2017, and the related consolidated statements of revenues, expenses and other changes in net position and of cash flows for the year then ended and related notes to the financial statements, and have issued our report thereon dated October 26, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

October 26, 2017



Dave Yost • Auditor of State

THE OHIO STATE UNIVERSITY FOUNDATION

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 12, 2017